DOCUMENT "C."

CONSIDERATIONS OF POLICY GOVERNING FUTURE NEGOTIATIONS WITH THE GOVERNMENT OF INDIA ON THE SUBJECT OF THE MYSORE SUBSIDY.

1. The main questions to be determined concern the purpose, the scope and the method of the negotiations. It will be convenient to deal separately with each of these heads. But it is first of all necessary to indicate the conditions in which, as the result of past history and recent events, the negotiations will be continued.

The most striking thing about the negotiations hitherto is that they have given occasion for the exchange of voluminous correspondence, but have led to no practical result whatever. The only diplomatic success achieved by Mysore in a century of argument consists in the postponement of the increase of 10½ lakhs between 1881 and 1897. Otherwise, the history of these negotiations is nothing more than a series of wearisome reiterations, which make no impression on the actual course of events. The conclusion suggests itself that a radical change of method is necessary if a different result is to be obtained; and the clue to the nature of this change will be given by the answer to the question *why* there has been until now so little to show for the expenditure of so much effort. (I may mention incidentally that the papers furnished to me by the Government of Mysore do not by any means contain the whole of the correspondence which has passed on this subject. I happen to remember an immense file in the Secretariat in Delhi which was entirely concerned with the question of the particular dates at which the instalments of the Mysore subsidy should be annually payable; also I have read considerable further correspondence on the question of the Sinking Fund, which would be distinctly relevant in any comprehensive negotiations with the Government of India.)

2. There can be little doubt that the main reason for the failure, from the Mysore point of view, of the negotiations hitherto is that the controversy has been allowed to degenerate into a debate. The appeal, throughout, has been to reason and to equity, and the object with the Government of Mysore have held in view has been nothing more than to make out a good, and if possible an incontrovertible, case on paper. Opinions may differ as to the extent to which Mysore has been successful in achieving this object. But what is perfectly clear is that all the resources of argument have been exhausted. It is no longer possible to find any point, whether of law, of equity or of logic by which the case can be strengthened, for every available contention, good, bad and indifferent has been used already many times and the only new things that could be said would be such things as might be suggested by new developments in the political or the economic situation of the moment. It may well be that such developments, as for example, the new tariff bill passed by the Indian legislature, or the new principle laid down by the Viceroy on the 29th November 1923 (that when the subsidy paid by an Indian State, together with the cost of the troops which it maintains, exceeds a certain percentage of the gross revenues of the State, a part of the subsidy should be remitted) may affect the situation. But it would be optimistic to expect that they will do more than give additional weight to some of the arguments already repeatedly advanced by Mysore, without however thereby making it any more likely that the Government of India will in practice revise its attitude in this matter. The conclusion is irresistible that the appeal to reason by itself has failed and will continue to fail. The first condition, therefore, of any resumption of the negotiations with greater hope of success is that the Government of Mysore should, if possible, adopt a more realistic and a less academic standpoint than it has adopted in the past. How far, in practice, there is any possibility of offering material inducements to the Government of India or of bringing effective pressure to bear will be

considered later. For the present, it may suffice to say that if and when the Government of Mysore takes up the subject once again, it will be well advised to forget all about its past history and to ignore altogether most of the arguments which have been adduced until now in favour of a reduction of the subsidy.

3. This conclusion goes some way towards determining what the purpose of any fresh negotiation should be. It should be to convince the Government of India not merely that the Mysore subsidy ought to be reduced or abolished, but that it cannot or will not be paid any longer. Until now, it has always been possible for the Government of India to assume, and it has been implicitly admitted by the Government of Mysore, that while the debate as to rights and wrongs was proceeding, the half-yearly instalments would be punctually paid. There was therefore never any inducement to the Government of India to bring the debate to a conclusion or to make any kind of compromise or arrangement. The matter would be safely regarded by them as having no urgency and little practical importance, and the debate was therefore interminably prolonged. The only way of ensuring that Mysore will have the ear of the Government of India is to make it perfectly plain that the question is one which has a positive, practical bearing on next year's budget. Instead of using the tactless argument that the Mysore subsidy is a mere "drop in the Ocean" to the Government of India and can therefore very well be dispensed with, Mysore should endeavour to bring home to the Government of India the very contrary, namely that 35 lakhs of its revenue (a very appreciable sum in present circumstances) are endangered unless a reasonable agreement can be made in a matter which no longer brooks of delay and which cannot now be disposed of by the mere writing of another dilatory and argumentative letter.

Once this standpoint has been adopted at the start, the purpose of the negotiations should be simply to secure the best terms possible in the circumstances. Half a loaf is better than no bread, and it would be a tactical mistake to ask (or rather to expect) too much or to refuse a compromise. Any concession however small, is immensely valuable to Mysore, because it gives away the case of the Government of India in principle and can always be used later on as a precedent and a lever for exacting further concessions. It has to be recognised that the Budget position of the Government of India is not yet so confortable as to enable a remission of 35 lakhs a year to be made without misgivings, while therefore the case for Mysore should be so presented as to suggest that the complete and immediate abolition of the subsidy is the only practicable course, it should not be the purpose of the negotiations to achieve all or nothing. Any immediate concession would be so valuable in its influence upon the future course of events that it is impossible to fix any minimum limit to what Mysore could reasonably afford to regard as a satisfactory result for the present.

4. The question of the scope to be given to these negotiations presents peculiar difficulties, and should be definitely settled, once for all, before any further steps are taken. In writing to Lord Chelmsford on the 21st August 1919, His Highness the Maharaja asked that His Excellency, as an experienced statesman, should "regard this question not merely as a financial one, important though that may be, but in its wider aspects as involving the position and prestige of my State." Similarly, the draft prepared for the memorandum enclosed with the Dewan's official letter of the same date. Document No. 2 begins by associating the question of the Mysore subsidy with the much wider problem of the relationship of the ruling princes of India with the Government of India and the Paramount Power. It is for very serious consideration whether or not it would be good tactics to extend the scope of the negotiations about the Mysore subsidy to cover also these wider problems.

On the one hand there is no doubt that the Government of India realise that the position of Indian States within the Constitution of the Indian Empire requires to be reviewed and revised. More especially does the present Finance Member in the Viceroy's Council appreciate the necessity of dealing with this problem. He is acutely conscious of the inadequacy of the present economic relationships. He regards it as one of the first tasks of the future to complete the reform scheme by working out in detail an entirely new system of financial relations between the Government of India, the Provincial Governments and the Indian States. He readily admits the anomalies of the present situation (such as the indirect contributions exacted from inland States by Customs Duties levied by the Government

of India at the ports) and would probably not be sorry to see the whole problem raised in an acute form by a practical example of the difficulties and dissatisfactions to which the present conditions give rise.

5. On the other hand, it is perhaps questionable whether from the point of view of Mysore it would not be more advantageous to have the subsidy dealt with quite independently, as purely and simply a financial problem whose solution was required owing to the particular and pressing financial necessities of the moment. Clearly, such a treatment of the subject would be more expeditious. An independent decision could be promptly reached. But this procedure does violence to the obvious fact of the case. The fact is that the Mysore subsidy is not an independent question, but is part of a much wider and more difficult problem which, sooner or later, the Government of India will have to face. A partial treatment of one tiny facts may prejudice the whole issue, and by demanding such a partial treatment the Government of Mysore would expose themselves to the legitimate reply that their case will be dealt with in good time when far-reaching decisions of policy have been taken, covering the whole field of which the Mysore subsidy is only a corner. In that case, it might turn out that negotiations had made a false start, and the initiative for renewing and pursuing them would no longer rest with Mysore, but with the Government of India.

6. Between these two extremes of regarding the Mysore subsidy as an independent and particular case or as raising the whole question of internal political and financial relations in India, it is possible to imagine various middle courses. For example, while admitting the complexities of the wider problem, Mysore might for one reason or another, plead for a privileged position and for separate treatment. The case, on such premisses, would be difficult to make good and this policy does not commend itself, on general grounds, as likely to be successful. Alternatively, it would be possible to recognise the wider *financial* implications of the problem, while at the same time sharply distinguishing it from the various political questions to which it is related. The scope of the negotiations would then be extended so as to cover the whole economic field, and a solution could only be looked for through joint action with other Indian States. This again means delay. But it also means that the possibilities of give and take are vastly increased. If Mysore is negotiating alone, on the single question of the subsidy, she has little to offer by way of inducement to the Government of India to make a compromise or a concession. But if all the Indian States are negotiating together on the question of economic relations generally, a settlement with much more easily reached in which, as it were incidentally, the Mysore subsidy is completely abolished. Moreover, in this case, the negotiations would be, if not with the Finance Member personally, at least with a single Department of the Government of India instead of with several or with the Government of India as a whole. The prospects of arriving without undue delay at definite result are certainly greater than they would be if the whole political question were raised at the same time, as suggested in the Maharaja's letter already quoted.

7. The choice between these different courses of action is not easy to make; but it must be quite clearly and decisively made at the outset, if the issue is not to be confused at a later stage. For example, if the decision were to claim separate or preferential treatment, or to narrow the scope of the negotiations strictly to the Mysore subsidy itself (regardless of related problems, political and financial), it would be important to avoid introducing any comparison with the relative position of other Indian States. This argument by comparison has been very fully developed more than once in the past correspondence with the Government of India. It is in any case a somewhat dubious argument, which throws open the door to endless controversy. It would be relevant and would have to be raised if the intention were to arrive at a general financial settlement, equitable in its incidence upon all parties. But the logical distinctions require to be first realised and then carefully applied if a consistent policy is to be pursued, and the decision with regard to the scope to be given to the negotiations is the first and most important decision to be taken.

I should personally recommend the narrowest possible scope. This disadvantage of having little to offer as *quid pro quo* appears to me to be outweighed by the prospect of obtaining an early settlement. Once the limits of the problem are extended, it is difficult to be sure that anything will be done; and if anything were

done it could only be as part of a general revision which is bound in the long run to take place, and from which Mysore might hope to gain no more if the question of the subsidy were settled as part of the bargain than if that question had been previously disposed of. I would therefore treat of the subsidy not as a subsidy (comparable to other subsidies contributed by Indian States) but merely as a payment of a certain fixed sum. I would exclude not merely all arguments by comparison, but also all arguments relating to the historical origins and the ethical or legal justifications of the subsidy as such. I would make the question so far as possible, a purely technical financial question at the outset, and I would negotiate on that basis with the Finance Member.

If, as is possible and even likely, it turns out that the question cannot in practice be isolated to this extent, and that before the negotiations have proceeded very far the whole problem of economic relations between the different Indian Governments is raised, I would hold fast to two principles: In the first place, while recognising that wider problems were involved, I would insist that the particular question of the Mysore subsidy was of immediate practical importance and must be put right, even if only temporarily and pending a wider and more permanent settlement in which it would eventually be included. In the second place I would use every effort to insist on the separation of the economic from the political aspects of the wider problem, and on the separate and prior treatment of the former as a technical question in which purely technical considerations must take precedence.

8. In any event it has to be recognised that, however much the sphere of the negotiations is narrowed, the Mysore subsidy cannot be abolished without the intervention of the Secretary of State. The Secretary of State will approach the problem primarily from the point of view which I believe it would be in the interests of Mysore to exclude. He will remember that it is not only a money payment but also a subsidy and he will judge of it in the light of its past history and of analogous cases in India. The final decision is therefore likely to be taken, however the previous negotiations are conducted, on general grounds. This is a point which deserves to be weighed when the scope to be given to the negotiations with the Government of India is determined. It may be that a successful conduct of the case on restricted premisses would be of no avail, and that afterwards it might seem as if it would have been better to accept battle along the whole front, instead of restricting the engagement to a narrower field. While I admit the possibility and the risk, I do not regard it as sufficient to invalidate my conclusion. It is only one reason the more for stressing (and if possible, demonstrating,) the urgency of the case, and for showing that some relief is a financial necessity which, for the time being at any rate, dictates a course of action from which there is no practical escape.

In view of the Government of India's traditional respect for precedent, the cases of Udaipur and Bunswara, quoted on p. 42 of Document No. 2 are perhaps worth remembering, even though they are comparable only in principle and not by any means in amount or in relative importance with the subsidy payable by Mysore.

9. It remains to consider the method of the negotiations. From what has been said already it will be apparent that I regard further correspondence with the Government of India through the Resident as in the highest degree unpromising. Any new representations in the form of an official letter would inevitably be read in the light of the correspondence which has passed on this subject during the last half century, and would merely go to swell the files of Delhi and Bangalore. It is of the utmost importance that the controversy should cease to be a controversy; that it should be regarded as a practical problem; and that it should enter upon an entirely new phase. Nothing can contribute more to this result than a complete change of method. The problem is not an administrative problem to be settled departmentally, but a diplomatic problem to be settled by negotiation. But while constitutional theory and the form of existing institutions are based upon the assumption that the Government of Mysore can have nothing but deplomatic relations with the Government of India, actual practice proceeds upon the assumption that all outstanding questions can be treated at leisure through the recognised official channels which are nothing if not departmental. What is required, therefore, is a method which will break loose from the shackles of official procedure. The adoption of such a method, if it can be found, will have the incidental advantage of emphasising—

what requires to be brought home to the Government of India from the first—that the Mysore subsidy is now a special and urgent case which it is necessary, for practical and financial reasons, to deal with immediately and realistically, without too much regard for form or precedent or analogies.

But in India generally, and in the relations of the Government of India with Indian States in particular, there will always be some difficulty in departing from the established and recognised procedure. So far as correspondence is concerned, it may fairly be said to be hopeless to attempt to hasten or force a conclusion. The alternative method is personal intervention, in one form or another ; and the adoption of this alternative is all the more necessary because the Government of Mysore may wish and may need, for the purpose of these negotiations, to take up a standpoint which could not suitably or safely be committed to writing in official records. The essence of the policy which is here advocated is that the attitude of sweet reasonableness on the part of the Government of Mysore, and the appeal to the reason and fairness of the Government of India, which have been characteristic of the fruitless negotiations of the past, must now be abandoned. The controversy is to become, within certain limits, a contest, and a logical argument is to be replaced by the exercise of pressure (even if only the pressure of passive resistance) and the offer of inducements. For the execution of such a policy as this, oral negotiations are the proper method.

Oral negotiations could be initiated either personally by His Highness the Maharaja or on his behalf by the Dewan. In the first alternative His Excellency the Viceroy and in the second alternative the Finance Member of the Viceroy's Council would be the natural person to address. But however initiated, the negotiations are certain actually to be conducted in practice in the light of the advice tendered by the technical officers of the respective Governments. The Viceroy could not fail to bring in both the financial and the political departments of his Government. The Finance Member, on the other hand, would perhaps be able and would certainly, I believe, be anxious to arrive at a financial settlement in the first instance. If therefore, it is, as has been suggested above, to the advantage of Mysore and in the interests of an early solution that the field of the negotiations should be narrowed as much as possible, then the personal intervention of the Dewan, on instructions from His Highness the Maharaja, is indicated as the right method of re-opening the question.

10. If these conclusions regarding the purpose, the scope and the method of the negotiations are accepted, it becomes necessary to pass in review the opposing forces in order to measure their strength and select those on which it will be advisable to rely. In other words, not only the strategy but also the tactics of the engagement require to be worked out in advance.

The case which Mysore sets out to establish is no longer that the subsidy *should* not but that it *can* not and will not be paid (1). If the Government of India could be induced to recognise that the subsidy cannot be paid, it would perhaps be possible to isolate the case of Mysore and to obtain separate treatment as a practical necessity. Bul if, as suggested in paragraph 7 above, it is found that the Government of India insist on regarding the question of the Mysore subsidy as raising in principle the whole problem of internal economic and financial relationships between Governments in India, then Mysore, without abandoning her original contention, is willing also to accept battle on the wider front provided that the subsidy is temporarily suspended, pending a comprehensive arrangement in which it will form one item of a much more general settlement. What I would emphasise here is that it would be possible (and even reasonable) to claim such a temporary suspension as soon as the Government of India, by raising the more general question, implicitly admit that the economic relations between Indian States and the Indian

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(1) NOTE :—It has been a serious tactical and logical mistake in the past to combine these two contentions. If the subsidy *can* not be paid, this fact alone takes precedence of everything else, and the question whether it should or should not be paid dose not arise. To combine the two arguments is to suggest, inevitably, that the one which, if it were valid, would by itself be conclusive, does not as a matter of fact bear close examination. In a court of law it may be good policy to contend, for example, that a libel was not published or, alternatively, that it was justified in substance and in fact. But in a diplomatic negotiation it is usually advisable first to choose one's ground carefully and then to stand firm upon it.

Government require to be overhauled and revised ; and that this claim may (and should) be made even if the Government of India remain unconvinced that continued payment of the Mysore subsidy is not practically possible.

The position is a little paradoxical. The strategy which I would recommend requires that the scope of the negotiations be restricted at the outset as much as may be and that the Government of Mysore should attempt to have the subsidy treated as a special case. But I recognise that on this narrower ground the tactical position of Mysore is not so strong as it would be in the case of a general engagement on economic relations. By raising the wider problem and refusing to take up the Mysore question by itself on grounds of practicability alone, the Government of India place themselves, to my mind, at a tactical disadvantage in relation to Mysore, because it will then be open to Mysore to claim that if the question of practicability is to be shelved in favour of a wider settlement, then the subsidy should be suspended in the meantime, even though the Government of India remains unconvinced by the original contention of Mysore.

11. The reason why the tactical position of Mysore on the narrower issue seems to me to be relatively weak is that inability to pay, which is then the only point at issue, is uncommonly difficult to prove. The only satisfactory proof that can be given is actual failure to pay, in the face of strong pressure and at the cost of serious inconvenience. A State at all times commands considerable resources, and inability to meet a particular item can, at the most be only relative. Moreover the payment now in question is not, strictly speaking, a foreign payment and the peculiar difficulties of conversion from one currency into another, which complicate the payment of indemnities in Europe, do not exist. Ultimately, the question of ability to pay turns upon the question of taxable capacity, and that is a conception which bristles with technical difficulties and can never be reduced to terms of a mathematical demonstration. "It may be argued," as the Dewan's letter of the 21st August 1919 quite ingenuously admits, "that the Durbar should curtail their expenditure and rest content with a slower rate of progress ;" and this argument is not offset by the disingenuous contention that "any increase in the economic prosperity of the people is also an advantage to the Government of India. The fact is that Mysore can afford and does afford (and incidentally, is bound by Treaty to maintain) an unusually high standard of administration and that the latent resources of the country (and also, if I am not mistaken, the present prosperity of the people) stand high in comparison with those of other Indian States.

It seems then that the case for inability to pay must be argued on financial and not on economic grounds. It must be made a purely technical case, supported by the circumstances of the moment and valid, perhaps, only for the time being. It would be a mistake to attempt to prove anything so sweeping as Mr. Gordon's *abiter dictum* of 1880 throwing doubt upon the capacity of Mysore "then or in future years" to bear any material increase of the subsidy. The point to be made must be simply that it would be a mistake on the part of the Government of India to attempt to enforce payment in the present condition of the Mysore State finances, and this contention must be backed by an implied threat of default. A total or absolute inability to pay can never be proved and "impossible" in this case means no more than that if Mysore has to choose between defaulting on this or on other claims, she will default on the subsidy and take the consequences. That is why it has been necessary, in preceding paragraphs, to qualify the statement that Mysore *can* not pay by saying that she *will* not.

12. Two questions now arise : the first, how far it is actually true that Mysore is reduced to a Budgetary condition which makes it a practical necessity for her to choose between defaulting on the subsidy and abandoning other expenditure so essential to her welfare that she would sooner incur the consequences of default ; the second, what those consequences would probably be and what means are available to Mysore of defending herself against them.

The first question is one which I have attempted to answer for myself by a study of the Financial Statements and Budget Estimates from 1919-20 to 1923-24. This material, though it is probably as exhaustive as any documentary evidence could be, does not enable me to reach any confident conclusion on what is, after all, a question of policy and not of arithmetic. But of one thing I am convinced, namely that the inability of Mysore to continue punctually the payment of the

subsidy, if it exists at all, can only be demonstrated in fact and never on paper. That is to say, the Government of Mysore can only carry conviction with the Government of India by being in practice ready to consent to inconveniences and interferences which would be intolerable unless the real burden of the subsidy were, as Mysore ex-hypothesi contends that it is, unbearable.

The situation is in many respects comparable to the Reparations situation in Germany and elsewhere. The only possible justification for a refusal to meet a Treaty obligation is an honest non-possumus ; and the honesty of a non-possumus can only be shown by an invitation to the creditor to come and take upon himself the part of the bailiff. If therefore the abolition of the subsidy is in fact a financial necessity to the Government of Mysore—a fact of which I am not in a position to judge on the evidence before me then the right course is for Mysore to refuse payment and at the same time to invite an investigation by a competent authority into the question whether or not payment is both possible and advisable. The demand for an immediate suspension of payments should therefore be accompanied by an offer. What precise form this offer should take is not a matter on which it would be useful to formulate any suggestions in advance. There need be no question of any such financial control as has been imposed in Europe as the price of concessions in the matter of Reparations. But if the Government of Mysore is confident of its own case, there need also be no hesitation in courting a full investigation by a Commissioner or an Advisor who would report to the Government of India, payment of the subsidy being in the mean time suspended.

13. It is necessary, however, to provide for the possibility that the Government of India would simply refuse to negotiate on the basis of cancellation. In that case, it would be for the Government of Mysore to determine whether to continue punctual payment or not ; and this decision—assuming all the time that the burden of the subsidy is so great as to warrant the taking of serious risks—could only be taken on the strength of an estimate of the probable consequences. As usual when it is a question of estimating the force of sanctions, it becomes necessary to distinguish between the legal, the possible and the practicable forms of pressure that could be brought to bear on both sides. The legal sanctions of the Treaty of 1913 amount to nothing at all. In the last resort, they contemplate ; presumably, the possibility of war, which may for practical purposes be neglected. The possible sanctions by which the Government of India might seek to exact payment are in the main economic. The Government of India is in a position seriously to damage the credit of Mysore State as a borrower. But in these questions it is best to abide quite strictly by the practical and not by the theoritical possibilities. The fact is, so far as I can judge, that mere passive resistance to further payments of the subsidy by Mysore on the ground of virtual inability would lead to nothing more than formal protest and further negotiation. That is, in fact, one of the chief reasons why the subsidy question must be expected to lead to the opening up of the whole problem of inter-Governmental financial relations in India. The failure of Mysore to pay one instalment of the subsidy is likely to have no other effect than to force an issue, earlier than could otherwise have been the case, on the wider question of which the Mysore subsidy is only a part.

Nevertheless, it is necessary for the Mysore Government to determine in advance whether it is prepared to take the risks which must be run if the subsidy is to be got rid of at once. Summarily stated, the reasoning is as follows:—

Further argument about the rights and wrongs of the subsidy is useless, as a means of getting rid of it forthwith.

The case for abolition must therefore be based upon inability to pay.

Inability to pay has to be demonstrated in fact (by submission to investigation) and not merely on paper.

In case investigation is refused and payment is merely demanded by the Government of India as a matter of right, Mysore must be prepared to default as the only remaining proof of inability.

It is not improbable that default would lead to nothing more than a widening of the scope of the negotiations. But there are other possibilities and Mysore has to choose between either weighing them and facing them, or basing her case not upon inability at all.

The advantage of pleading inability at the outset is that even if this should lead to wider negotiations, Mysore might fairly require immediate relief, whereas if the wider questions are broached from the start there is no apparent reason why Mysore should not continue to pay the subsidy in the meantime.

But this advantage has to be weighed against the possible risks, and a decision on this point can only be taken by measurement of the possible risks against the real burden of the Mysore subsidy.

14. As soon as the Mysore subsidy ceases to be treated as a special case of immediate and purely financial moment, and the negotiations, whether by an extension of the original field or from their inception, are taken to include other subsidies and financial relations generally, the tactical position of Mysore becomes much stronger, if only because many of the arguments are then relevant which were inadmissible in the former alternative. The argument from comparison with other States is now a good one, even though it is based upon a calculation of indirect contributions which cannot easily be checked or substantiated, in detail. It becomes possible to raise the quite fundamental question propounded by the Maharaja in his letter to the Viceroy of the 21st August 1919, whether it is seriously intended that the subsidy should be a tribute payable in perpetuity to the Government of India. It is relevant to discuss what is the proper price to be paid for the defence of India by British arms, since the subsidy is in essence "the price of protection" and must enter; as such, into any redistribution of financial burdens between various Indian Governments. The letters of the 3rd March 1923 (Document No. 6) refer to considerations which can legitimately be introduced into the negotiations, especially in view of the new protective legislation of the Government of India. It is obviously fallacious to assume an identity of tariff interests between the Indian States and British India. The fact that the Government of India happens to control the ports, which was little practical significance when customs revenue was an almost insignificant portion of the resources of the Government of India, has assumed a new importance to which no practical recognition has yet been given in the financial relations of the Government of India to Indian States. Still more do the arguments of Document No. 19 (which are conceived in an altogether more realistic spirit than the arguments of previous correspondence) become relevant to the discussion. The decision of 1921 that it should "be taken for granted in future that all the resources of the State will be at the disposal of the British Government in time of need" is in direct conflict with the fundamental assumption on which the demand of a subsidy is based, namely that Great Britain assumes the military responsibility of the Empire, and is therefore entitled, in the terms of the Instrument of Transfer, to levy contributions for this purpose from the constituent Elements in India. Generally speaking, all the arguments from equity would become available, instead of merely the arguments based on practical necessity.

15. On the other hand, however wide the scope of the negotiations, there are some arguments *in the documents* before me which I would recommend the Government of Mysore to be careful to avoid for the future. For example, the argument that all revenue from Customs Duties on goods consumed in Mysore (§ 13 of Document No. 19) rightly and indeed legally belongs to the State is a typical example of that vice of overstatement which, through an attempt to prove too much, weakens the effect of a good case. The real strength of the Customs argument is in the *increases* which have taken place in recent times in the Customs tariff, and its validity only extends so far that these increases should, in equity, be taken in diminution of the Mysore subsidy. To go on from these premisses to the assumption that Mysore has a valid claim in law to the refund of all such revenue, and in fact to the refund of the whole "unauthorised burden" (§ 15) consisting of indirect contributions amounting to Rs. 50 lakhs, is to impart to the whole negotiation an air of unreality which can do nothing but damage. Imaginary claims of this sort do not constitute (as is assumed in § 15 of Document No. 19) a useful counter with which to bargain with the Government of India. It is not possible to secure an advantage by offering to surrender what one does not possess. Similarly the argument in the third of the letters dated the 3rd March 1923 and contained in Document No. 6, that Customs duty levied on stores and machinery imported by the Government of Mysore is, to all intents and purposes, a transit duty (since the goods do not break bulk) and therefore constitutes a violation of Article 14 of the

Mysore Treaty is wholly inadmissible. The situation has been in the meantime altered in this respect on account of the legislation introduced by the Government of India during the last Delhi Session of the Assembly, but the case is quoted here merely as an example of the legalism which has sometimes disfigured the Mysore case against the subsidy in the past, and which must be avoided for the future if any practical results are to be obtained. Assuming that the whole question of financial relations is raised, I believe that the Government of Mysore has a sufficiently strong case for a revision involving the complete abolition of the subsidy, without resorting to the adventitious aid of specious and dialectical contentions of this sort.

CONCLUSION.

16. My recommendation on the whole matter would be that the question of the Mysore subsidy be made subject of personal negotiations between the Dewan of Mysore and the Finance Member of the Government of India, on the basis of an immediate suspension of payments as a matter of practical financial necessity. In the event, however, of the Government of Mysore deciding either :—

I. that the restrains (*e.g.*, the nomination of an adviser or Controller on behalf of the Government of India) inseparable, to my mind, from a demonstration of incapacity to pay, incompatible with the dignity of Mysore, or

II. that the risks involved by an attitude of non-possumus carried to the extreme limit of an actual default, are so serious as to outweigh the advantages of a chance of immediate relief, or

III. that the negotiations must proceed, for whatever reason, through the recognised official channels and by correspondence, instead of by personal intervention and discussion.

I would recommend that the Government of Mysore should deliberately broach the whole problem of inter-Governmental financial relations in India, by addressing to the Resident a letter on the lines of the tentative draft attached below (Document "D").

This draft is obviously and deliberately unsuitable for official use, but it conveys the meaning which I believe it would be useful, in more temperate and formal language, to convey to the Government of India.

I would recommend, even in the second of the above alternatives, that the economic and financial question be strictly dissociated from the political questions to which it is allied. The problem of financial relations between Indian Governments is by itself already so complicated that I cannot be hopeful of any early relief for Mysore unless the Durbar feels strong enough or poor enough to face the logical consequences of default.

Secret.

DOCUMENT "D."

TENTATIVE DRAFT TO THE RESIDENT IN MYSORE.

SIR, I would ask you not to refer to the previous correspondence on the subject of the subsidy paid by the Mysore State to the Government of India under Article 4 of the Mysore Treaty of 1913, nor indeed to any previous correspondence whatever.

2. The question on which I am commanded to address you is the question of the financial and economic relations of the Government of India to the Indian States in general and to Mysore in particular. I have nothing to say, at present, about the altered political circumstances produced by the war and by the Reforms, nor about the changed relations which the Indian Princes were led to expect as a result of their exertions in the common cause. The considerations which I am desired to bring to your attention are technical considerations belonging entirely to the sphere of economics.

3. As you are aware, the Government of Mysore enjoys under the constitution a position of financial independence. As an integral part of the Indian Empire it has the same currency as the British India : but its revenue and expenditure, its fiscal legislation, and in fact its finances generally are subject to the unfettered control of the Government of His Highness the Maharaja. ~~It is a fact~~ that under the Mysore Treaty of 1913, the Indian Coinage Act of 1870, the Government Savings Bank Act of 1873, the Opium Act of 1878, the Indian Stamp Act of 1879, and certain other financial enactments of the Central or of Provincial Governments have a qualified validity in the State of Mysore. Moreover, by Articles 8 and 14 of the Treaty, Mysore has renounced the right to levy duties on goods imported for use in British Cantonments or on goods carried by through traffic on British Railways without breaking the bulk in the State. But it remains true, nevertheless, that although, for administrative convenience or for the sake of uniformity and good order, the Government of Mysore may have consented to certain treaty limitations upon its own freedom of action, it has jealously preserved, with the express consent of the Paramount Power, its own financial independence, except in one respect. Since the year 1799 the State of Mysore has been required, and has hitherto consented to pay a contribution towards the expenses incurred by others in the maintenance of military forces from which Mysore might expect, directly or indirectly, to derive some benefit.

4. The Mysore subsidy of 35 lakhs per annum is payable, under Article 4 of the Treaty of 1913, in consideration of an undertaking given by the British Government "to defend and protect the territories of Mysore against all external enemies," and "to relieve the Maharaja of the obligation to keep troops ready to serve with the British Army when required." I am directed to avoid making allusion for the present to any of the following difficult and interesting questions :

(1) whether a sum of 35 lakhs per annum is adequate compensation for the services rendered to Mysore by the armed forces of the Crown and on what principles the adequacy or inadequacy of such compensation may rightly be estimated.

(2) whether the contribution paid by Mysore in respect to these services stands in a fair and proper relation to similar contributions paid by other Indian States.

(3) whether the principle laid down in a Memorandum accompanying the letter (No. 44—1. B.) of the Government of India, (dated the 5th January 1921 and addressed to the Honourable the Resident in Mysore), that "it should in future be taken for granted that all the resources of the State would be at the disposal of the British Government in time of need," is consistent with the conditions on which an annual subsidy is required from Mysore under the Treaty.

(4) whether, and to what extent, the Government of Mysore is entitled to claim a reduction in the amount of the subsidy at present payable, on the specific

ground of the new method of calculation announced by His Excellency the Viceroy in his banquet speech at Mysore on the *29th November 1923*.

(5) whether it is seriously intended that the tribute imposed in 1799, and increased in 1880 should continue to be payable in perpetuity and at the same nominal money rate.

5. The one point for which I would claim your attention is that implicitly, if not expressly, the subsidy payable by Mysore is presumed to be, as originally to all intents and purposes it was, the only levy exacted from the State by the Government of India. Consequently, when at the time of the reassessment of the subsidy, the indirect contribution paid by Mysore on account of the excise duty on salt, was found to have increased appreciably, this fact was taken into account by the Government of India in the reassessment (see despatch No. 26, dated Fort William, 3rd March 1880). The Government of India would not and do not claim to be entitled in principle to impose upon Mysore, without her consent, any new financial burdens whatever.

6. This theory of reciprocal financial relations has, with the lapse of time, come to accord less and less with the actual facts, until to-day it is possible for an Assembly in Simla, representing British India, to enact legislation which has economic reactions on a land-locked State like Mysore amounting in practice to the imposition of a second subsidy financially more considerable and economically more burdensome than the first. The Government of Mysore has on more than one occasion made representations to the Government of India on this subject without result. The straitened financial circumstances in which the State now finds itself, and the extent to which use has recently been made of the power to impose indirect taxation of Mysore for the benefit of the Government of India have combined to make it impossible for the Government of Mysore to contemplate a continuance of the present state of affairs.

7. For these reasons the Government of Mysore are desirous of entering into direct negotiations with the Government of India with a view to the treatment of the subsidy question as one part of a comprehensive resettlement of the financial relations between the Government of India and the State. Provision will continue to be made in the State Budget for the present amount of the subsidy, but the Government of Mysore would suggest that future instalments as they fall due should be paid into a special suspense account to be opened by the Imperial Bank of India, and should remain there until they are disposed of by inclusion within the terms of the general settlement.

D. O. No. 31.
Enc. one report and one book.

FINANCIAL SECRETARIAT.

Dated, Bangalore 30th August 1924.

MR. M. N. KRISHNA RAO'S REMARKS ON THE REPORT OF MR. SEIPMANN ON MYSORE SUBSIDY.

DEAR SIR,

With reference to your D. O. No. M. C.- 89, dated 22nd July 1924, forwarding the Report of Mr. Seipmann on the subsidy question, I append a note containing my views on it.

Mr. Seipmann's Report consists of two parts.

(*i*) a critical study of the previous negotiations on the subject—Document B, and

(*ii*) suggestions for the future conduct of the case—Documents C and D.

I have dealt with these parts in my note and have also recorded in it my views regarding the place of this problem in the political evolution of India in the not distant future and the care and attention which it demands on our part to prevent the forces which are gradually gathering strength and the conflict of financial interests which the operation of such forces is bound to create from working against us.

I am afraid my note has become somewhat long. As I had to offer my remarks on Mr. Seipmann's Report, I thought it well to cover the whole ground traversed by him. It is impossible to over-state the importance of the problem and if any matter will receive more and more attention in the future, it is the question discussed in Document C of Mr. Seipmann's Report and I consider, therefore, that it is well worth all the time and attention which can be given for its study.

I find from an examination of his Report that Mr. Seipmann has not made any positive contribution to the solution of the problem. What, I think, is of value in his Report, I summarise below:—

(1) the suggestion for taking action for compelling attention to our grievances and demanding their speedy redress ;

Such action may not take the exact form which Mr. Seipmann recommends, but it will have to be in future, more forceful than it was possible to make it such in the past, if the solution by the Government of India of the outstanding problems is unduly tardy, or, if any solution suggested does not do justice to our legitimate claims.

(2) the attention drawn to the position that according to constitutional theory and the form of existing institutions, the Government of

Myorse can have nothing but diplomatic relations with the Government of India and that the solution of large questions would be less dilatory and more hopeful of success, if attempted by the method of direct and personal negotiations than by means of interminable correspondence through an intermediary like the Resident ;

It is, I think, one of the important problems of the future to make the relations between the State and the Government of India consistent with the political status of the former.

(3) the information conveyed that the Government of India realise that the position of Indian States within the constitution of the Indian Empire requires to be reviewed and revised and that the present Finance Member of the Viceroy's Council readily admits the anomalies of the present situation (such as the indirect contribution exacted from inland States by Customs Duties levied by the Government of India at the ports) and would probably not be sorry to see the whole problem raised in an acute form by a practical example of the difficulties and dissatisfactions to which the present conditions give rise.

Our recent representation for a share of the interest on Currency and Gold Standard Reserves diverted for wiping out the deficit of the Government of India is one such example. It is hopeful to learn that there is a disposition to remove the existing anomalies. I, however, fear that the prospect of recognition of our claims to Customs, Salt and other items of revenue is not very near and that persistent efforts on our part are necessary to prevent undue delay in the settlement of these questions and also to see that the settlement reached is fair and reasonable.

and (4) the suggestion of holding the subsidy amounts paid by us in a suspense account.

It is not, I think, possible to propose the adoption of this arrangement with reference to the whole problem of the financial relations between the Government of India and the State as suggested by Mr. Seipmann. We may, however, make this proposal in respect of the subsidy alone, as suggested in my note, if the present negotiations about it are not concluded promptly.

I herewith return Mr. Seipmann's Report.

Yours sincerely,
M. N. KRISHNA RAO.

RAJAMANTRADHURINA
A. R. BANERJI, C.S.I., C.I.E.,
DEWAN OF MYSORE, BANGALORE.

The Report of Mr. Seipmann

Consists of three parts which he calls Documents B, C and D. In Document B he gives a summary of history of the subsidy question and adds his comments and criticisms on the manner in which it was handled by Mysore at different times in the past, when representations were made to the Government of India and the Secretary of State for the postponement, reduction, or, remission of the subsidy. Document C discusses the different methods which, Mr. Seipmann thinks, can be adopted in conducting future negotiations on the subsidy question and indicates the particular method, which, in his opinion, is calculated to ensure its speedy and satisfactory solution. Document D is only a draft for re-opening the question on the new lines recommended in Document C.

2. The past history of this problem has very little influence on its course in the future and Document B, dealing as it does with such history, should not require examination at any great length. But in this Document Mr Seipmann condemns the lines on which the previous representations on this subject were made by Mysore and comes to the conclusion that the negotiations spread over a period of half a century proved practically fruitless as the case was not properly handled. Mr. Seipmann's diagnosis of the causes of failure in the past has suggested to him the remedies which he recommends in Documents C and D for adoption in the future. Document B is, therefore, invested with an importance which it would not have otherwise possessed and it calls for an examination with a view to see how far Mr. Seipmann's reading of the past history of this question is correct and what value may be attached to the lessons he draws from the past for the conduct of the case in the future.

3. In Appendix A, I give in Mr. Seipmann's own words the defects in substance and form and "the diplomatic mistakes" which, he thinks, marred the presentation, in the past, of Mysore's claim for reduction or remission of the subsidy and adversely affected the prospects of its success. I have considered it necessary to give this summary to enable one to form a correct opinion on Mr. Seipmann's analysis of the causes of failure.

4. Mr. Seipmann's criticisms may broadly be classified under the following heads:—

(1) Argumentative and academic nature of discussion and want of realistic presentation of the case.
(2) Multiplication of arguments and citation of authorities.
(3) Frequent allusion to antiquated history.
(4) "Imponderable" character of counter claims.
(5) Pleading of financial inability to pay.
(6) Appeal for sympathy.
(7) Alienating sympathy by offending against the susceptibilities of Englishmen.

5. It was impossible for Mysore to do anything more than submit paper representations for reduction or remission of the subsidy. It cannot be denied that such representations must depend for their strength on arguments and authorities which could be cited to support them. When the requests for relief were being repeatedly turned down by the Government of India, it could scarcely be considered a fault on the part of Mysore to have advanced new arguments and reasons in addition to those already urged when the claim was pressed again and again. It is strange that Mr. Seipmann should find fault with Mysore for having relied upon reason and argument to support its claims for relief from the unduly heavy burden imposed by the subsidy. Situated as Mysore was—and still is—what else could it do? So far as it was an appeal to reason, did Mysore succeed in making out a convincing case or not? If it did, what accounts for the repeated rejection

of the representations of Mysore? The following extract from Mr. Seipmann's Report contains answers to these questions:—

> "He (the reader of the representations of Mysore, *i.e.*, the Government of India and the Secretary of State) feels that he is perhaps, by sheer force of reason being persuaded to admit, but he is not being persuaded to act or decide. Intellectually, his conversion may be accomplished; but he will resent and resist conversion of this sort, because his good sense will tell him that though he is being worsted on the field of dialectics, he may yet hold an impregnable position which is not even being attacked in the field of practical politics."

I think it was not 'good sense' but the reverse of it that refused to do justice by taking the practical action which the intellectual conviction that the claim to relief was fair and reasonable, plainly indicated.

6. Mr. Seipmann states that our contention that the revenue from customs duties levied on goods actually consumed in Mysore belongs to the State is "as unreal as any contention could well be." I confess I cannot follow this statement. If customs duties which are levied in India and which fall upon consumers, do not belong to the Government in whose jurisdiction the consumers are and whose protection they enjoy, one would like to know who else is entitled to the revenue from such duties. The Government of India as the Central or Federal Government can take this revenue which belongs to the Governments of the Provinces and the States in India only in return for the services it renders to such Governments. This is admitted in unqualified terms in the Report of the Committee appointed to advise on the Financial Relations between the Central and Provincial Governments. This is what the Committee has stated on this subject:—

> "The total contribution of a Province to the purse of the Government of India will consist, in future, of its direct contribution towards the deficit, together with its indirect contribution (as at present) through the channels of customs, income-tax, duties on salt, etc."

If a State pays to the Central Government,—as the Government of Mysore does—an independent and adequate contribution for military protection which such Government affords, the right of the State to its share of customs duties and other similar items of revenues is indisputable.

7. The method of realistic presentation which Mr. Seipmann thinks ought to have been adopted by Mysore is explained by him in Document C and I shall discuss it in detail in dealing with this part of his Report. Here, it is enough to state that this method was neither practicable nor advisable in the past, any more than it is even now. The crucial question is this:—What is the fair and equitable contribution which Mysore should pay every year towards the military expenditure of the Empire? This question was raised in 1896, but as Mr. Seipmann himself states "in approaching the case from this angle, the Dewan, was, for the first time, coming to grips with realities but he was perhaps also opening out the road towards great questions which were not then yet ready for settlement." The position in this respect has not changed very much even now. Most of the 'great questions' referred to by Mr. Seipmann still remain unsolved. The persistence with which some of them have recently been pressed on the attention of the Government of India has only resulted in making the disposition of that Government a little more favourable for considering the questions but the prospects of their final solution are still distant.

8. As regards frequent allusions in the negotiations to ancient history, we must remember that the case of Mysore was for being freed from an obligation which was imposed by the Treaty of 1799 and which also formed part of the conditions of Rendition of the State, embodied in the Instrument of Transfer. Could allusion to past history be avoided in representations for the remission or reduction of such an obligation? Was it not only natural to refer to the circumstances in which the subsidy was demanded and agreed to, to show how the conditions had since changed and called for a modification of the antiquated provisions in the Treaty and the Instrument? It was only by proving that whatever justification

there might have been in the past for the levy, it no longer supported the annual demand in perpetuity that we could ask for its remission or reduction.

9. Mr. Seipmann thinks that Mysore has no ' measurable ' or ' exchangeable ' claim to customs duties and that it was, therefore, a tactical mistake to have set up a counter claim in respect of revenue from these duties in asking for the remission of the subsidy. He admits that the argument based on our right to a share of customs receipts is serviceable and even central but states that it can only be effective if it is put forward in general terms. I find it difficult to understand this view. How can we have a claim to any financial interest if it is not measurable ? There may be difficulties or differences of opinion in assessing our share but surely some practical method of measurement is possible, though the arrangement may not be ideally perfect. We have a claim—and a measurable claim to customs revenue and this is practically conceded in the following extract from the Residency letter dated 19th June 1924 which conveys the views of the Government of India :—

> " The question of the exemption from payment of import duties of articles imported for the use of the Mysore Government and their several departments has been taken with the general question of GRANTING TO INDIAN STATES a share of the customs receipts of British India."

10. Mr. Seipmann considers that it was unwise to have advanced the plea of financial inability to pay, to justify the request for reduction or remission of the subsidy and yet the constructive part of his Report—Document C—places unqualified faith in the argument of financial incapacity to pay, for forcing a decision in our favour. I shall discuss this argument in dealing with Document C. Here it is enough to state that if it is now possible for Mysore to plead want of resources as the strongest ground for being relieved of the burden of the subsidy, Mr. Seipmann cannot hold that the advancing of the same plea in the past prejudiced the success of previous representations.

11. When a subordinate Government makes a representation to a superior Government, an appeal for the sympathy of the latter is only natural. Mr. Seipmann thinks that the form of past representations were such as to offend against the susceptibilities of Englishmen and that this cause also contributed to the failure of negotiations. The strength of a claim lies in its substance and not in its form and if those who had to mete out justice allowed sentiment to get the better of their sense of justice, it is unfair to blame Mysore for the manner of presenting its case especially when every conceivable ground in support of it was urged. I, however, agree with Mr. Seipmann that the features which he states has characterised our correspondence on this subject with the Government of India and which he classifies under the four heads of ' prohibitions ' in para 16 of Document B ought to be avoided as they are undignified and can never add any strength to our views or claims.

12. Mr. Seipmann's comments on the previous conduct of the case are hypercritical and I think he is not right in his reading of the past history of this question or in the lessons he draws from such history for the successful handling of the case in the future. It is easy enough to find, from the vantage ground of 1924, faults in the methods employed for attacking the problem on different occasions in the previous forty years and to infer from the failure of the case that its diplomatic conduct was defective. The only pertinent question is, was not the case, on the whole, properly presented in the past, subject as it was to limitations of various kinds, most of which exert their influence even now, and was it not supported by all that could be urged in its favour ? I think it is unfair to give a negative answer to this question.

13. The real causes of the failure to obtain redress in the past are, I think, the following two factors ; Mr. Seipmann's Report shows that he is aware of them but he has not given them their proper place in his exposition of the conditions which contributed to render unsuccessful the repeated attempts of Mysore to obtain a solution of the problem :—

(1) The relation between the British Government and the Government of Mysore due to the events of 1799, 1831, 1868 and 1881. Both

parties have been consciously and unconsciously influenced by these relations which made the Government of Mysore a suppliant for favours and the British Government the supreme authority to refuse them.

Mr. Seipmann himself puts this point very frankly thus :—

" He (the Dewan) had chosen to shift the dispute on to a purely argumentative plane and on that plane *it is not difficult for an ingenious opponent to hold his own especially if whatever the rights and wrongs of the case, he is in a position to enforce his will.*"

" *Rather than grapple with the real problem presented* * * * * * *the Secretary of State* * * * * * *met it simply with a categorical refusal on 27th May 1897.*"

Comment on the *italicised* portion of this extract is unnecessary. The uniform fate of most of our representations to the Government of India, however just and fair, has been to be thrown out summarily by that Government. Our correspondence—past and present—with that Government is full of instances which illustrate and confirm the view expressed in the extract.

(2) The political conditions in India which were not in the past—and still are not in a large measure—favourable for attempting an equitable distribution of the financial rights and obligations of the different parts of India. At every step we meet with inconsistencies, inequities and anomalies created by ancient history in the relations of the Indian States with the Government of India and it is impossible to say when and how a new order of things fair to all interests concerned will be evolved. The problem may be nearer solution now than it was, say, a decade back but the prospects of its final settlement are still fairly far off.

If the previous negotiations for the reduction or remission of the subsidy have been barren of results, it is not due, I think, to the mishandling of the problem by Mysore but entirely to the unfavourable political conditions in India and the obduracy of the Government of India. The main conclusions at which Mr. Seipmann arrives in Document B do not, therefore, appear to me to be correct.

14. The Mysore subsidy is certainly " an anachronism " and " a quaint survival " as stated by Mr. Seipmann. Whatever character of an indemnity " for the expenses of the War " it possessed, it has long since lost. Neither the levy as a " tribute " exacted by a conqueror nor its assessment at Rs. 35 lakhs per annum in perpetuity, on the strength of reasons which the conqueror considered sufficient in the distant past, can now be defended. The observations of Mr. Seipmann on all these points are, no doubt, very pertinent and sound, but they require one very important qualification. The application of the analogy of an indemnity exacted by one independent and sovereign country from another independent and sovereign country which it conquers, to the case of the Mysore subsidy, cannot be pressed too far. It is obvious that Mysore was not and is not in the position, say of France from which Germany exacted an indemnity on the occasion of the Franco-German War of 1871 or of Germany from which reparations are now demanded by the Allies who fought against her in the late European War. Mysore is part of India, politically and geographically, and the State has to shoulder the responsibilities of its position.

15. To question the validity of the foundation on which the nature and amount of the present levy rests is, therefore, only a partial statement of the problem. If the State cannot be called upon to pay for ever an indemnity for a War waged a century and a quarter ago by a dynasty which then ruled over Mysore and which immediately ceased to exist as the result of the war itself—any such claim has only to be stated in this form to expose its untenability—it cannot disown the obligation to contribute towards the cost of military protection which it shares with the rest of India. If the cash subsidy of 35 lakhs per annum paid by the Government of Mysore together with the indirect contributions of various kinds

which the people of Mysore pay, imposes an unfair burden on Mysore—as I believe it does—the case is for a reduction of the burden and not for its removal altogether. Again, if the form of the State's contribution is not in harmony with what should be the proper relation of the Government of Mysore to the Central Government in India—and there can be no two opinions that the payment of a "tribute" by the former to the latter is as unjust as it is undignified—the case is for a modification of the arrangement which will give full recognition to the political status of Mysore in the altered and still altering conditions in India.

16. The constructive part of Mr. Seipmann's Report is Document C in which he discusses the considerations which should govern the policy to be followed in future in conducting negotiations with the Government of India on the subject of the subsidy. This question of future policy is dealt with by him under three heads: *viz.*, (1) the purpose, (2) the scope, and (3) the method of negotiation.

17. From his examination of the previous history of the case, Mr. Seipmann has come to certain conclusions in Document B which he reiterates in the introductory part of Document C. These conclusions have suggested to him the course of action which he recommends for adoption in the future. Mr. Seipmann argues in this manner:—

> "The negotiations hitherto have led to no practical result. * * * * The main reason of the failure is that the controversy has been allowed to degenerate into a debate. * * * * All the resources of argument have been exhausted. * * * * The appeal to reason by itself has failed and will continue to fail. * * * Therefore the purpose of any fresh negotiations should be to convince the Government of India not merely that the Mysore subsidy ought to be reduced or abolished but that it cannot and will not be paid any longer."

18. Mr. Seipmann's view, therefore, comes to this: paper representations have failed in the past and are likely to fail in the future and so, let Mysore refuse to pay and thus compel the Government of India to concede its claim. It is this attitude of defiance which Mr. Seipmann describes as "a more realistic and less academic standpoint" for the future diplomatic conduct of the case. We have been asking for relief from the undue burden of the subsidy for about half a century and our repeated requests have fallen upon deaf ears and this position of hopelessness has suggested to Mr. Seipmann the need for a new and compelling method of urging our claim. The frame of mind which, when driven to despair, thinks of drastic remedies, is no doubt, not unnatural and we can, therefore, understand Mr. Seipmann's advice for the adoption of a realistic method for solving the problem. But heroic remedies are not always practicable or prudent and the later portions of Document C contain ample evidence of the fact that Mr. Seipmann himself realises the gravity of the step proposed by him and the seriousness of the risks run by taking it. So far as the purpose of the future negotiations is concerned, there is no room for any difference of view. Success—speedy and complete—in obtaining relief is our object as it is also the aim of Mr. Seipmann's advice but it is out of the question to think of obtaining success by adopting the method which he recommends. I shall return to this point in discussing the conditions to which Mysore has to submit if any action on the lines proposed by him is to be taken.

19. Incidentally, Mr. Seipmann observes that the papers furnished to him by the Mysore Government do not by any means, contain the whole correspondence which has passed on this subject and refers to the cases relating to dates of payment of the subsidy and the Sinking Fund, which he states, bear upon this question and which he read at Delhi. Neither of these cases has any kind of relation to the representations regarding the reduction or remission of the subsidy and Mr. Seipmann's allusion to them in this connection is unintelligible.

20. The scope of the negotiations is the next point discussed by Mr. Seipmann. The subsidy question is really one part of a much bigger problem which has many sides—political, economic and financial—and which also concerns the whole of India. Mr. Seipmann recognises this fact and his Report relating to this point shows that he has found considerable difficulty in coming

to a decision as to whether it is possible or advisable to isolate the subsidy side of the problem and press it alone for separate solution or whether it is not desirable to attack the whole problem once for all. After considering various alternatives, he states that he prefers to restrict the scope of the negotiations to the narrowest possible limits and to propose that the subsidy questions should be "dealt with quite independently as purely and simply a financial problem whose solution is required owing to the particular and pressing necessities of the moment." As a matter of fact, the subsidy question has been proposed by the Government of India to be dealt with independently of its relation to the connected economic and political problems. The principle of permitting rebate of tributes according to the formula communicated in Mr. Cater's letter dated 8th January 1924 is evidence of this fact. Mr. Seipmann's advice for narrowing the scope of the future negotiations is sound and it has been anticipated and already acted upon.

21. The scheme of rebate of subsidies was before Mr. Seipmann when he wrote his Report and I do not understand why he has expressed no opinion on it. He has alluded to it twice but has not told us what he thinks of it. Here was a definite scheme sanctioned by the Government of India for allowing a reduction of the subsidy and Mr. Seipmann should have examined its merits, considered the extent of relief that it would afford us and given his advice as to whether it was acceptable or not and if unacceptable, what modifications in the scheme we should ask for and on what grounds. It would have been helpful to us if he had dealt with this concrete scheme and it is disappointing that his Report should be silent on this most important subject.

22. Another equally important point, the exhaustive treatment of which, one should expect in a report of this kind is what is the detached view of an outsider like Mr. Seipmann in regard to our claim for relief from this burden. What are the services of the Central Government for which we should pay? On what principles should the contributions towards the cost of such services, payable by all Governments in India—Governments of British Provinces and Governments of Indian States—be assessed with a view to make the incidence of levy equitable to all who should bear it? In what forms should the assessed amount be paid? Is it to be in the form of direct cash contributions? Or, is it to be in the form of indirect cash contributions? Or, is it to be in the form of Military Forces maintained for purpose of Imperial Defence? Or, is it to be partly one of those forms and partly in another? Whatever the form and the amount of the contribution, is the arrangement once made to be permanent, or is it to be for a specified period, to be renewed with or without revision thereafter, with reference to the conditions at the time? Judged with reference to reasonable criteria on these points, is Mysore now entitled to claim the remission of the whole subsidy or of only a portion of it? These are some of the matters vitally affecting the solution of the problem if it should have any claim to stability for a reasonable period but Mr. Seipmann's Report does not even remotely touch upon them.

23. As regards the method of the negotiation, Mr. Seipmann states that the system of paper correspondence through the Resident should be given up and that the problem should be taken up as a practical and diplomatic one to be settled by direct personal discussions between the representatives of the Government of Mysore and the Government of India. His recommendation on this point and how he expects that it will work, if adopted, may be given in his own graphic words:—

> "The essence of the policy which is here advocated is that the attitude of sweet reasonableness on the part of the Government of Mysore and the appeal to the reason and fairness of the Government of India, which have been characteristic of the fruitless negotiations of the past, must now be abandoned. The controversy is to become, within certain limits, a contest and a logical argument is to be replaced by the exercise of pressure (even if only the pressure of passive resistance) and the offer of inducements."

24. On this basis, he would have the Dewan personally negotiate with the Finance Member of the Government of India who he believes "would perhaps be able and would certainly be anxious to arrive at a financial settlement in the first instance." We may be prepared to discard "form or precedent or analogy" and to

come to an immediate understanding by compromise and personal discussion but what chance is there that the Government of India will agree to settle this question on these lines ; I am convinced that there is no such short cut to the solution of this problem. The Mysore subsidy has intimate relations which many important political and economic all-India problems of the present and the future and it is impossible for the Government of India to agree to discuss it separately or to remit it, independently of the connected questions, especially that relating to the military obligations of Mysore. In fact, this is the position already taken by the Government of India ; the proposal made in our letter of 22nd August 1919 was for the isolation of the question of the subsidy and for its treatment as a purely financial problem of pressing importance to Mysore but the Government of India have not accepted this view and the form and extent of relief which they are prepared to concede by the formula of rebates proposed by them show that they cannot dissociate the Mysore subsidy from the Military obligations of Mysore and other Indian States similary circumstanced. In the face of all these facts which were before him I do not understand how Mr. Seipmann has seriously suggested the isolation of the question for independent solution by remission of the whole subsidy. He does not appear to have been unaware of this aspect of the case for he says in para 8 of Document C as under:—

> "The Secretary of State will approach the problem primarily from the point of view which, I believe it would be in the interests of Mysore to exclude. He will remember that it is not only a money payment but also a subsidy and he will judge of it in the light of its past history and of analogous cases in India. The final decision is therefore likely to be taken, however the present negotiations are conducted, on general grounds."

25. The sole justification which Mr. Seipmann urges for the line of action proposed by him, is "stressing (and if possible, demonstrating) the urgency of the case and for showing that some relief is a financial necessity which for the time being at any rate, dictates a course of action from which there is no practical escape." I am afraid this is not practical politics as I shall presently prove while examining the remaining suggestions of Mr. Seipmann.

26. Paras 10 to 16 of Document C contain the final recommendation of Mr. Seipmann. This recommendation takes the form of two alternative proposals as he is unable to decide between them and leaves the choice of either to us. The alternative courses of action indicated by him are the following:—

(1) If the need for financial relief is real and capable of proof, refuse to pay and take the consequences, or
(2) If it is considered inexpedient to refuse to pay and run the consequential risks, raise the whole problem of Inter-Governmental financial relations in India and ask for holding the amounts of the subsidy paid, pending the settlement of that problem, in a suspense account for disposal in accordance with the settlement eventually arrived at.

27. The arguments for and against these two courses are discussed at great length by Mr. Seipmann. He looks upon the problem as a game in political strategy and tries to recommend a line of action which he imagines will give Mysore a tactical advantage over the Government of India in the conduct of the case. He thinks that, if the Government of India state that the subsidy is part of a bigger problem, the settlement of which takes time, Mysore can ask for the payment of the subsidy being suspended till such problem is solved. I do not think that the case lends itself to such treatment or that there is any prospect of clever diplomacy succeeding where repeated appeals to reason failed. The relative political positions of the two Governments cannot be overlooked and it would be a vain venture if Mysore attempted to score a diplomatic success in dealing with the Government of India.

28. His Report shows that he is in favour of isolating the subsidy problem and asking for a solution of it, independently of the connected questions. But he fears that the election of this alternative is unlikely to be made and has, therefore, prepared a tentative draft—Document D—for putting forward the other alternative.

29. I shall now consider the first of his two proposals. The success of this proposal entirely depends upon our being able to convince the Government of India that we have not got the financial capacity to pay the subsidy. Mr. Seipmann says "Prove this incapacity by threat or fact of default and invite the Government of India to appoint a Commissioner to convince themselves that your contention is correct." He admits that "inability to pay is uncommonly difficult to prove" and that "a total or absolute inability to pay can never be proved and 'impossible' in this case means no more than if Mysore has to choose between defaulting on this and on other claims she will default on the subsidy and take the consequences." As for the consequences, he states that there are the following possibilities: (1) war, (2) damage to the credit of Mysore as a borrower, and, (3) protest and further negotiation resulting in forcing "an issue earlier than could otherwise have been the case on the wider question of which the Mysore subsidy is only a part." He dismisses the first two possibilities as only theoretical and thinks that the default will only lead to a prompt solution of the larger question.

30. I am afraid it is out of the question for us to accept this advice for resorting to 'direct action' and act upon it. For one thing, we cannot permit the relations between the Government of Mysore and the Government of India to degenerate into retaliations and reprisals. Under no circumstances, should we agree to permit a Commissioner deputed by the Government of India to interfere with our internal administration and any such interference would be simply intolerable. Even if we should agree to such intolerable interference, is there the remotest chance of such a Commissioner's verdict being in our favour ? How shall we prove that we cannot pay the subsidy ? Are we not paying it now and have we not paid it all these years for a century and a quarter ? Let us see what Mr. Seipmann has got to say on this point. "If the Government of Mysore is confident of its own case, there need be no hesitation in courting a full investigation by a Commissioner or an Adviser who would report to the Government of India, the payment of the subsidy being, in the meantime, suspended." He does not tell us what is the strength of our claim on the ground of financial inability and he wants us to decide this point for ourselves but tells us that if we are confident of our case, we may expect to succeed. I am afraid advice of this kind is of no value to us. Mr. Seipmann states that the situation in which Mysore may plead inability to pay the subsidy "is, in many respects, comparable to the Reparations situation in Germany and elsewhere." I confess I do not see any parallel in this respect between Mysore and Germany or how the analogy of Reparations will help us to solve our subsidy question.

31. The second alternative which is supported by a draft proposed for giving effect to it advises us to raise the whole problem of Inter-Governmental financial relations in India and ask the Government of India not to appropriate the subsidy amounts paid pending the final decision of this problem, but allow it to be kept in suspense for disposal according to the ultimate settlement arrived at. This suggestion, I should certainly have supported if there was any chance of its being accepted. For the present, however, I see no prospect of this proposal meeting with the acceptance of the Government of India. In support of this view, I may cite the parallel and perhaps stronger claim put forward by the Government of Madras in respect of its subsidy to the Government of India according to the Meston Award. This is what that Government stated :—

> "In the opinion of His Excellency in Council there is only one reasonable solution of the difficulty ; which is that only the contribution which the Committee declares to be equitable that is to say, the final standard contribution shall be regarded as a payment by the Province to the Central Government, ANY AMOUNT WHICH THE PROVINCE IS CALLED UPON TO PAY IN EXCESS OF THAT STANDARD BEING TREATED AS A LOAN TO BE RE-PAID WITH INTEREST."
>
> (*Vide* page 26, Cmd. 974.)

This proposal of the Government of Madras is very similar to that suggested by Mr. Seipmann. The request of Madras for treatment of the excess as a repayable loan was in respect of a subsidy, the abolition of which has been promised—the Government of India stand pledged to take off the Provincial subsidies as early

as possible—and the relief sought for was also in regard to a levy which represents about 22 per cent of the revenues of the Presidency. The case of our subsidy is different from that payable by Madras as there is no promise by the Government of India to remit it and as it is also a much smaller fraction of our revenues. In such circumstances, it seems to me that we can hardly expect the Government of India to extend to us a consideration which they did not allow to Madras.

32. Apart from the consideration urged in the preceding para, there is the fact that the Government of India do not propose to take up for settlement as one indivisible problem the subsidies paid by Indian States and all the connected economic and financial questions. The decision about the formula of rebates and the intimation that the question of granting a share of customs receipts to inland Indian States is under consideration, are clear evidences of the intention of the Government of India not to mix up the several problems but to attempt their solution one by one. It is true that this method involves delay but we are estopped from asking for the adoption of any other method as we have proposed to avail ourselves of the relief due to us under the system of rebate of subsidies and as we have also asked for the sparate settlement of our claim to a share of customs duties. I do not also believe that there will be less delay if we suggest that the Government of India should solve all the problems once for all. The second alternative suggested by Mr. Seipmann is not, therefore, of any use to us.

33. In dealing with his second alternative, Mr, Seipmann refers to our claim for exemption from customs duties of stores and machinery imported by the State Departments and states that "the situation has been altered in this respect on account of the legislation introduced by the Government of India during the last Delhi session of the Assembly." I do not see how this legislation has affected our contention. It is true that the imports of the Central and Provincial Governments are now subject to duty but the duty paid by the Provincial Governments is refunded to them and the payment by the Government of India is purely nominal as it is set off by the corresponding increased receipts from customs. When the concession of exemption from customs duties—refunds mean exemption, though indirect—is continued to Local Governments which are now financially independent of the Government of India, it is impossible to deny the extension of the same concession to the Government of an Indian State like Mysore.

34. The subsidy question is but one part of the larger all-India problem concerning the relations between the Central Government and all other Governments in India—Provinces and States. The policy of granting Responsible Government to British India has been declared by the British Parliament and the early establishment of such Government is being demanded by politicians in British India. The march of events shows that the constitution may be modified earlier than was considered possible a few years back. The introduction of responsibility in the Central Government will profoundly affect the Indian States. The India with full Responsible Government cannot be the India of the British Provinces alone. The Central Government in such India must necessarily have many points of contact with the Indian States and the relations between them require to be defined.

35. The question which is of vital importance to us is what is to be the position of an Indian State like Mysore in the India enjoying full responsible Government or working towards that goal. The discussion of this question has not, so far as I know, received much attention. The Montford Report alludes to this problem without, however, contributing anything to its solution. In para 349 of this Report it is stated that "in this picture .. .... of future India ..... there is a place for the Native States." There is, no doubt, in the Federal India of the future a place for Indian States but the important questions which have to be settled are: What exactly will be their place? Will such place assure to them their full rights? What safeguards will be provided to afford the necessary guarantee? And what steps are being taken to see that the factors which are forcing the advent of full Responsible Government in India do not unfavourably affect the interests of the Indian States in obtaining the place which is rightfully due to them in the new dispensation?

36. Even before the full Self-Governing Dominion form of Government is established in India, there is probability of the introduction of the principle of responsibility in the Central Government and also of a further increase in the Indian *personnel*, drawn from British India, of the Cabinent of that Government.

Although, " relations with Indian States " may form a reserved subject in the charge of a detached authority like the Viceroy, questions concerning such States, when they come up for consideration by the Central Government cannot but be affected, though indirectly and unconsciously, by the strong British Indian element of the Central Cabinet and also by the influence of the Central Legislature, representing only British India, to which such Cabinet is necessarily subject. The questions that arise for settlement will mostly be those in which both British India and Indian States are concerned and the decision by the Central Executive of such questions cannot be expected to be quite disinterested or do full justice to the claims of Indian States. In support of this view may be cited what the Leader of the Democratic Party stated in March 1923 in the Legislative Assembly when the question of wiping out the deficit of the Central Government was under discussion :—

> " The Finance Member can rightly say that none who has hitherto spoken has suggested any constructive programme. With his permission, I would say a few words upon that matter. The contributions from Native Princes were fixed at a time when the cost of the Administrations was hardly a third of what it is now and when the cost of the military undoubtedly was not one-third of what it is at present. Now, Sir, I ask the Honourable the Finance Member, has he ever directed his attention to that ? Has he ever considered whether it is possible to levy a further contribution from these people who enjoy peace and prosperity in consequence of the heavy expenditure which we have incurred."

This tendency of British Indian politicians makes it obligatory on us to be specially vigilant in safeguarding our interests.

37. The place of Indian States in the India of the future is a complex political problem and this note does not deal with it but only with the question of the financial relations of the Governments of Provinces and States with the Central Government. The financial relations of Mysore with the Government of India have been unfair to the former for a long number of years and it is not possible or right to permit the present arrangement to continue any longer. The need for relief from the excessive burden placed on the State is long overdue and our claim to it should be pressed with greater vigour and persistence than in the past. Whether the pace of constitutional developments in British India is quick or slow, our case for financial justice is unaffected.

38. Under the existing system, Provincial Governments and the Government of Mysore both pay direct and indirect subsidies to the Central Government. The cash subsidies which the Provincial Government are required to make to the Central Government are defined in Devolution Rules Nos. 17 and 18. These subsidies are in addition to the indirect contributions which the same Government have to pay to the Government of India as stated in the Meston Report. The present direct contribution which Mysore makes to the Central Government consists of the cash subsidy and the future direct contributions will be according to the scheme of rebate of tributes communicated in the Residency letter dated 8th January 1924. In addition to this contribution, Mysore pays an indirect subsidy in the form of customs and other items as the British Provinces do.

39. The items of contributions of Mysore are compared below with those of Provincial Governments :—

Mysore.	Provinces.
Direct contributions.	*Direct Contributions.*
Cash Subsidy. Forces for Imperial purposes.*	Cash Susidy.
*Limited to 15 per cent Gross Revenues	
Indirect contributions.	*Indirect contributions.*
Customs.	Customs.
....	Taxes on income.
Salt.	Salt.
Opium.	Opium.
....	Railways.
Posts and Telegraphs.	Posts and Telegraphs.
Currency and Mint.	Currency and Mint.
Emergency contributions.	*Emergency contributions.*
Optional Special Payments.	Obligatory Special Contributions.

40. The Government of India have promised to remit, as early as possible, the whole of the cash subsidies payable by the Provinces and they have already waived for a period of three years the subsidy of 63 lakhs per annum payable by the Govenment of Bengal. Serious efforts were made by the Government of India in framing the Budget Estimates for 1924-25 to remit a substantial portion of the Provincial Subsidies and the measure fell through because of the opposition of the Legislative Assembly to the doubling of the salt duty. It is only a question of time when the Provincial cash subsidies will go and considering the fact that all the Provinces—the Executive Governments, the Legislative Councils and the public—have been continually protesting against this impost and demanding its immediate removal and that the Government of India themselves are anxious to take it off, we may assume that the payment of cash subsidies by Local Governments is only a temporary element in the financial relations between such Governments and the Central Government.

41. The net Railway revenue represents the return on capital provided by the Government of India who take the gains and losses on their investment in the concern. The receipts from Railways do not, therefore, form an item of revenue contributed by Provincial Governments. The capital of the Railways in Mysore has been provided by the State which accordingly takes the net revenues from them. The item of Railways, may therefore, be left out of the comparison under consideration.

42. The "excess contribution" payable under Devolution Rule No. 19 is from its nature occasional and extraordinary and when any crisis of first importance arises the position may require—as it did on the occasion of the War—a special contribution by Mysore as by Provincial Governments. There is, in fact, an implied understanding that all the resources of the State would be at the disposal of the British Government in time of need. The liability imposed by the said rule on the Provinces does not, therefore, really constitute any difference between them and Mysore and it need not, therefore, be taken into account in considering the normal financial relations between the Central and other Governments.

43. We may now see what are the services which the Central Government renders to Mysore and to Provincial Governments. Under the Treaty the only service which Mysore requires of the Government of India is protection against external enemies. It may be argued that in considering the general question of financial relations with the Government of India the liability of Mysore cannot be limited to what is laid down in Article 4 of the Treaty and that Mysore should be prepared to pay for all central services the benefit of which it gets. The central subjects are defined in Schedule I referred to in Devolution Rule No. 3 and a copy of the Schedule is appended to this note.

44. The subjects included in this Schedule may be broadly classified under the following heads:—

I. *Central Services.*—
Nos. 1, 2, 4, 5, 7, 8, 9, 12, 13, 14, 15, 20, 22, 24, 26, 31, 33, 34, 35, 36, 37, 38, 39 and 45.

II. *Central Revenues.*—
Nos. 10, 11 and 21.

III. *Matters subject to Central control and Miscellaneous items.*—
Nos. 3, 6, 16, 17, 18, 19, 23, 25, 27, 28, 29, 30, 32, 40, 41, 42, 43, 44, 46 and 47.

45. Item Nos. 5, 6, 7, 8, 9, 13, 14, 15, 20, 22, 24, 26, 31, 33, 34, 36, 37, 38, 39 and 45 coming under Central Services do not concern us as we have either our own arrangements for such services or we do not require them. We get the benefit of the service of Currency and Coinage but these operations result in a gain to the Government of India and no question of our paying for them arises. The benefit of No. 35, we may be said to receive but this is a minor matter. The only services, in which we are interested and for which we have to pay, are Nos. 1 and 2. No. 4 may also, perhaps, be brought under this category. Items coming under Central Revenues do not require consideration in this connection as they do not relate to any service calling for payment. We have our own arrangements in regard to subjects coming under head III and whatever expenditure is incurred by

the Government of India on them is entirely for the benefit of British India and no question of our reimbursing the Central Government for the administration of these subjects arises. The examination of the Schedule of Central Subjects shows that the only services for which Mysore may be called upon to pay are those relating to Defence and the work of the Government of India in the Foreign and Political Departments.

46. As regards Defence, there is one important point of difference between Mysore and Provincial Governments. The former has to keep its own Forces for maintaining order within the State while the latter are freed from this obligation. A large part of the Army in British India is maintained for internal security within the Provinces and Mysore cannot be called upon to pay for this part.

47. The position in regard to the services obtained from and the payments to the Central Government by Mysore and the Provinces is, as shown in the following statement, in the circumstances explained in paras 40 to 46 *supra*:—

Mysore.		Provinces.	
Services.	*Payments.*	*Services.*	*Payments.*
Direct contribution.		*Direct contribution.*	
External Defence.	Cash Subsidy Forces*	External Defence.	Nil.
	* Subject to 15 per cent of gross revenues.	Internal Defence.	
		Foreign and Political.	
Foreign and Political.		Nos. 5, 6, 7, 8, 9, 13, 14, 15, 20, 24, 26, 27, 28, 29, 31, 33, 34, 36, 37, 38, 39 and 42 of the Schedule of Central subjects.	
Indirect contribution.		*Indirect contribution.*	
Customs.		Customs.	
		Taxes on income (except a small fraction allowed to Provinces).	
Salt.		Salt.	
Opium.		Opium.	
Posts and Telegraphs		Posts and Telegraphs.	
Currency and Mint.		Currency and Mint.	

48. The Provincial Governments get from the Central Government the benefit of military protection—both external and internal—and also of a number of other services but they pay only the indirect contributions. Mysore requires only protection against foreign invasion but has to pay not only all these indirect contributions—except Taxes on Income—as the Provinces, but also 15 per cent of its gross revenues. The estimate of the Taxes on Income for 1924-25 is about Rs. 18¼ crores and this is the additional contribution which the Provinces pay to the Government of India and we may see what is the value of the extra services they get in return for this extra payment. The Public Debt of India is one of the important Central subjects and the estimated cost of service of the unproductive part of this Debt in 1924-25 is about Rs. 14¾ crores and this charge is the liability of all the British Provinces. Making allowance for this charge, the balance left out of the special payment in the form of Taxes on Income paid by the Provinces is about Rs. 3½ crores. The value of the other services, excluding protection against internal disorder, which the Provinces receive cannot be placed at less than Rs. 3½ crores. It will thus be seen that in return for their extra indirect contribution of Taxes on Income the Provinces get the benefit of the Public Debt and other services exclusively rendered to them by the Central Government and making allowance for these items on both sides of account in the statement given in para 47 the position is that while the Provinces get from the Government of India for their indirect contribution military protection both external and internal, Mysore has to pay the same indirect contributions and also 15 per cent of its gross revenues for only external protection. It is impossible to defend the existing arrangement which makes Mysore pay more for less service it receives, than Provincial Governments. It is clear from this analysis and comparison that the total burden direct and indirect placed on Mysore is excessive and our claim to relief is incontestable.

49. The question considered so far is only about contributions by the Provincial Governments and Mysore to the Central Government. This, however, is not the whole case. No calculation of this kind can be complete if it does not take into

account the contribution to be made by all the Indian States. It is necessary to ascertain what contributions and in what forms, the several States make for the services which they obtain from the Central Government and whether their present payments represent the full burden which they should bear. I believe there are cases of Indian States which either pay no contributions at all or pay less than what they should. I do not think it is possible to defend such cases of exemptions or light assessments, whatever historical causes there may be to explain them. Whatever the principles on which the contributions are to be made to the Central Government, all parts of India should be brought under the levy and the best efforts have to be made to render the incidence as fair and reasonable as possible to all concerned.

50. There is now no uniformity in the method adopted for requiring the Provinces and the States to pay to the Central Government; nor, is any uniformity aimed at by the Government of India in solving the outstanding problems. In the case of Indian States paying tributes and claiming any rebate of them, the Government of India have enunciated the new principle that they should pay 15 per cent of their gross revenues as contribution for Imperial Defence, wholly or partly in the form of a cash subsidy or the maintenance of Forces for such Defence. As for indirect contributions in the form of customs and other items which these States are now paying, nothing definite has been settled and all that we know is that the Government of India have in their recent correspondence shown a disposition to consider the request of the States for a share of customs duties. The method adopted in the case of Indian States paying tributes is apparently, therefore, that of requiring them to make a direct contribution for Imperial Defence and of possibly conceding their claim to the refund of some share of customs and other items which are now wholly taken by the Government of India. In the case, however of British Provinces, the method followed is exactly the opposite of what is proposed in the case of Indian States paying tributes. These Provinces are now required to pay cash subsidies but, the promise has been held out to them that these subsidies will be taken off as early as possible. When these cash contributions go, what the Provinces pay to the Central Government for the services required of the latter will be in the form of certain items of revenues agreed to be set apart for that purposes of the Government. There is another class of cases, *viz.*, that of Indian States which now pay no tributes at all or which even if paying tributes, find it to their interest not to come under the scheme of rebate of subsidies. It is not known what method is proposed to be adopted in regard to these States for making them pay for the military protection which they enjoy. When different methods are adopted in different cases, it is impossible to secure anything like fairness in the incidence of contributions to the Central Government and the unequal distribution of the burden is bound to be a perpetual cause of difference between the Central Government and the subordinate Governments which are required to pay more than what they should.

51. It will, I think, take some years to reach a final settlement which is comprehensive enough to include all parts of India and which can also claim to be reasonable and fair in the burden it imposes upon all those who should contribute to the Central Government. Although the prospect of such settlement is somewhat distant, yet, the political conditions are slowly shaping the forces which will determine the character of the settlement to be reached, and it is necessary for us to be vigilant in watching the course of these forces and prevent their working against our interests.

52. It seems to me that the best line of action for us is to keep the several problems separate and press for their independent solution. First, there is the question of the subsidy, and we have already proposed to avail ourselves of the scheme of rebates communicated in the Residency letter dated 8th January 1924. This scheme has many defects and it is unlikely that it will be a stable arrangement. The Government of India have not told us how the contribution for Imperial Defence of an Indian State paying tribute, has been fixed at 15 per cent of its gross revenues. Not content with keeping us in the dark in regard to this important point, they tell us that "it should be clearly understood that the grant of any concession in this matter is an act of grace on the part of the Paramount Power." I am afraid this method of dealing with the subsidy problem cannot hope to reach any satisfactory solution. In spite of its evident drawbacks, I think, we have done

well in proposing to come under the scheme if it is applied to our case in a reasonable manner. There can be no finality in matters of this kind unless the *rationale* of the proposal is fully discussed and both parties arrive at an agreement. We may take whatever relief we can get under this scheme, and continue to press for more, until justice is done to our legitimate claims.

53. Mr. Seipmann has advised us to propose that the subsidy amounts paid, pending the solution of the whole question of the financial and economical relations of the Government of India to the Indian States, may be held in a suspense account, for disposal according to the settlement ultimately reached. It is not possible to resort to this suspense arrangement in connection with the whole question but we may try to have it applied to the problem of the subsidy itself and get the benefit of rebate from as early a date as possible. The principle of rebate having been conceded by the Government of India, our claim to its benefit from the date of its announcement is perfectly reasonable and the Government of India ought not to have any hesitation in granting it. If the negotiations now in progress in regard to the subsidy question show a tendency to become protracted, we may propose that the subsidy amount paid, pending the settlement of the negotiations, should be held in a suspense account for disposal according to the decision which is finally reached and which should reasonably be given retrospective effect.

54. Of the indirect contributions which Mysore now makes to the Government of India, the two large items are Customs and Salt. We have so far raised the question of our right only to a share of the Custom receipts but, we have not urged our claim to the duty on Salt consumed by the people of the State. When our military contribution is fixed at 15 per cent of our gross revenues according to the Scheme of rebate of Subsidies, there can be no obligation on us to make additional payments indirectly in the form of Customs, Salt and other items. Unless strong pressure is brought to bear on the Government of India, they are not likely to evince any eagerness in settling our claims to these items of revenue. They are not now in a position to give up any share of their revenues and any such surrender would necessitate the postponement of remission of Provincial subsidies. However just, the case of Indian States has a formidable opposition ranged against it and the need for strong and sustained—and if possible combined—action is imperative for getting any relief within a reasonable time.

55. The case of Mysore is exceptionally strong as explained in para 48. If we should pay 15 per cent of our gross revenues for Imperial Defence, we should ask for (1) the data on which this demand is made and examine them to see if it is reasonable and (2) the refund, without delay, of our share of all indirect contributions. We have to work for having the questions solved one by one and the settlement of one will naturally lead to that of another as they are all parts of one large problem. There are, however, powerful factors likely to delay indefinitely the solution of these questions and our best efforts will have to be directed to counteract them.

56. The arrangement under which the Provinces have to follow one method for contributing to the Central Government and the Indian States another, is not a stable one but, the prospect of uniformity in this matter is still distant. When our military obligations are defined more precisely than they are now and when we have established our claim to the refund of the excess over what such obligations warrant, we shall be in a better position to consider any proposals for introducing uniformity in the contribution to be made to the Central Government by Governments of Provinces and Indian States.

M. N. KRISHNA RAO,
Financial Secretary.

APPENDIX A.

(1) "The negotiations are pursued in a view which becomes more and more academic and unreal."

(2) "The correspondence harps back continually to antiquated history which has ceased to be relevant and descends to the level of a mere debate in which legalism and formalism combine to obscure the true facts of the situation."

(3) "The very zeal with which arguments are multiplied and piled upon one another is suspicious ; instead of having the effect of over-whelming strength, it suggests an anxiety born of conscious weakness to search out and use every available prop for a poor cause."

(4) "The way in which the points are put cumulatively, without any regard to their relative importance or any attempt to sort out the crucial from the subsidiary is damaging."

(5) "The whole plea loses much of its force because much of it is imponderable."

(6) "The contention to be demolished is that Mysore could and should pay a contribution of 35 lakhs to Imperial Defence ; but instead of meeting this contention by hard and concrete facts, these statements proceed by a series of ill-defined considerations tending to show that Mysore is not, all things considered, as well off as might be supposed ; so that the precise bearing of the argument on the particular point at issue is often difficult to see and almost always difficult to measure. The final effect is a vague appeal *ad misericordiam*, with no concrete foundation and the whole exposition seems to suffer from a fatal diffuseness and irrelevance."

(7) "He (the Dewan) has chosen to shift the dispute on to a purely argumentative plane and on that plane it is not difficult for an ingenious opponent to hold his own especially if, whatever the rights and wrongs of the case, he is in a position to enforce his will."

(8) "On the 1st October 1896, he (the Dewan) returned to the charge with a claim to have the subsidy calculated on a new basis altogether namely that of the amount which can be regarded as the fair and equitable contribution of Mysore towards the military expenditure of the Empire. In approaching the case from this angle, the Dewan was, for the first time, coming to grip with realities ; but he was perhaps also opening out the road towards great questions which were not then yet ready for settlement."

(9) "The draft of 1919 begins by making immediate allusion to the effect of the War but it then proceeds to rehearse the whole case again from the beginning and to reproduce many of the self-same arguments of which so long ago as 1895 it had been said quite shortly and conclusively that they had been "previously rejected." The opportunity was thereby lost of compelling the attention of the Government of India by a completely new and realistic presentation of the case in the light of altered circumstances and of discarding altogether the old argumentative brushwood by which greatly to the disadvantage of Mysore the correspondence had been encumbered for half a century."

(10) "It cannot be good policy to quote in support of the Mysore case, from the writings of Sir William Lee Warner, from Aitchison's Treatises and Engagements, or even from the speeches of an unmanned Ruling Prince as if these pronouncements in some way fettered the freedom in reason or in fact of the Government of India to decide for itself ** ** ** Such quotations as these can have nothing but a highly provocative effect which would do real damage even to a good case."

(11) "The argument based on a comparison between the position of Mysore and that of other Indian States, whether it is wise to use it or not, cannot be made convincing because it proceeds from debatable assumptions. The area and population of Mysore can scarcely be accepted, without discussion as a proper basis for estimating capacity to pay; nor if the subsidy is a contribution to the costs of Imperial Defence is capacity to pay necessarily the proper or sole criterion by which the adequacy of the contribution shauld be judged."

(12) "Starting from the contention (which whatever may be its justification in law or in equity, is surely as unreal as any contention could well be) that all revenue from customs duties levied on goods actually consumed in Mysore belongs to the State and that the State is at present bearing an 'unauthorised burden of some 50 lakhs in indirect contribution' the draft of 1919 proceeds to suggest that the Government of India should negotiate with the Government of Mysore on the basis of acceptance of the principle that there ought to be an equivalent refund. Alternatively, the Government of Mysore would be prepared to renounce their claim to a refund of customs duties (at present rates) in return for a total abolition of the subsidy ** ** Mysore has no *measurable* claim in indirect contributions and still less, any *exchangeable* claim. The argument is serviceable and even central but only effective if it is put forward in general terms."

(13) "It repeatedly happens that in matters of taste and sensibility the letters of the Government of Mysore are so drafted that they antagonise or disconcert an English reader. ** ** ** A wound to the peculiar susceptibilities of an Englishman may do a great deal to prejudice a good cause."

APPENDIX B.

CENTRAL SUBJECTS.

1. (*a*) Defence of India, and all matters connected with His Majesty's Naval, Military and Air Forces in India, or with His Majesty's Indian Marine Service or with any other force raised in India, other than military and armed police wholly maintained by Local Governments.
   (*b*) Naval and military works and cantonments.
2. External relations, including naturalisation and aliens, and pilgrimages beyond India.
3. Relations with States in India.
4. Political charges.
5. Communications to the extent described under the following heads, namely:—
   (*a*) railways and extra-municipal tramways, in so far as they are not classified as provincial subjects under entry 6 (*d*) of Part II of this Schedule;
   (*b*) aircraft and all matters connected therewith;
   (*c*) inland waterways, to an extent to be declared by rule made by the Governor-General in Council or by or under legislation by the Indian legislature.
6. Shipping and navigation, including shipping and navigation on inland waterways in so far as declared to be a central subject in accordance with entry 5 (*c*).
7. Light-houses (including their approaches), beacons, light-ships and buoys.
8. Port quarantine, and marine hospitals.
9. Ports declared to be major ports by rule made by the Governor-General in Council or by or under legislation by the Indian legislature.
10. Posts, telegraphs and telephones, including wireless installations.
11. Customs, cotton excise duties, income-tax, salt and other sources of all India revenues.
12. Currency and coinage.
13. Public debt of India.
14. Savings Banks.
15. The Indian Audit Department and excluded Audit Departments, as defined in rules framed under section 96D of the Act.
16. Civil law, including laws regarding status, property, civil rights and liabilities and civil procedure.
17. Commerce, including banking and insurance.
18. Trading companies and other associations.
19. Control of production, supply and distribution of any articles in respect of which control by a central authority is declared by rule made by the Governor-General in Council or by or under legislation by the Indian legislature to be essential in the public interest.
20. Development of industries, in cases where such development by a central authority is declared by order of the Governor-General in Council, made after consultation with the Local Government or Local Governments concerned, expedient in the public interest.
21. Control of cultivation and manufacture of opium, and sale of opium for export.

22. Stores and stationery, both imported and indigenous, required for Imperial Departments.
23. Control of petroleum and explosives.
24. Geological survey.
25. Control of mineral development in so far as such control is reserved to the Governor-General in Council under rules made or sanctioned by the Secretary of State, and regulation of mines.
26. Botanical survey.
27. Inventions and designs.
28. Copyright.
29. Emigration from, and imigration into, British India, and inter-provincial migration.
30. Criminal Law, including criminal procedure.
31. Central police organization.
32. Control of arms and ammunition.
33. Central agencies and institutions for research (including observatories) and for professional or technical training or promotion of special studies.
34. Ecclesiastical administration, including European cemeteries.
35. Survey of India.
36. Archæology.
37. Zoological survey.
38. Meteorology.
39. Census and statistics.
40. All-India Services.
41. Legislation in regard to any provincial subject, in so far as such subject is in Part II of this Schedule stated to be subject to legislation by the Indian legislature, and any powers relating to such subject reserved by legislation to the Governor-General in Council.
42. Territorial changes, other than intra-provincial, and declaration of laws in connection therewith.
43. Regulation of ceremonial, titles, orders, precedence and civil uniform.
44. Immovable property acquired by, and maintained at the cost of, the Governor-General in Council.
45. The Public Service Commission.
46. All matters expressly excepted by the provisions of Part II of this Schedule from inclusion among provincial subjects.
47. All other matters not included among provincial subjects under part It of this Schedule.